WSDOT Market Analysis

March, 2007

This market analysis is based on a review of published information including the following sources: Associated General Contractors (AGC); Energy Information Administration (EIA), Engineering News Record (ENR); National Real Estate Investor and the Puget Sound Business Journal.

- **Asphalt** prices will likely rise farther, though at a slower rate than in 2006. Supply issues will keep asphalt prices high, and could cause supply disruptions in some areas as refineries around the country update their facilities to convert more of the crude oil to gasoline and other more profitable lighter end products.

  "Simonson warned that states will also experience much more volatility in supplies, noting that changes at the refinery in processing of crude oil may reduce supplies of asphalt. He described a temporary downturn in January as "the lull between storms." AASHTO, "The AASHTO Journal," March 9, 2007.

  "Prices for paving asphalt are expected to increase just 9.4%, after jumping 27.7% in 2006." ENR, "2006 Cost Report," 12/18/2006

- **Concrete** prices traditionally increase during the spring and summer. Cement prices have increased each month during the first quarter of 2007. Though price escalation for the material is expected to slow from 2005 and 2006 levels, cement prices will likely increase. The threat of shortages has subsided due to imports from China and a trade agreement with Mexico, but demand may still outpace supply in localized areas.

  "Despite the recent downturn in housing, cement producers have been able to continue to push prices higher. ENR's 20-city average price for Portland cement started March with a 1.8% increase, capping seven months of constant hikes. This month's increase pushed prices 7.6% above a year ago. This compares to year-to-year March increases of 6.5% in 2006, 3.7% in 2005 and just 0.5% in 2004." ENR, "Construction Economics," March 5, 2007.

  "The U.S. cement industry has begun adding capacity. But current plans will take as long as four years to build out and may not be sufficient to keep up with the growth of demand, let alone substitute for existing imports. Therefore, further cement price increases appear to be likely. Periodic, localized shortages are also a strong possibility, especially in regions where breakdowns in a single plant or transport mode cut the only local source of cement." AGC, "Construction Inflation Alert," March 2007.

- **Fuel** prices increased during the first quarter of 2007, after falling during the second half of 2006. The increase in fuel prices was caused by a number of factors, including: crude oil prices, supply and demand, winter weather, refinery outages and declining imports.

  "Retail diesel prices decreased for the second consecutive week, falling 0.5 cent to 267.6 cents per gallon. However, prices remain 11.1 cents per gallon higher than at this time last year. Prices on the West Coast saw a decrease of 1.0 cent to 280.3 cents per gallon." EIA, "This Week in Petroleum," March 28, 2007.

  "It is important to understand why prices have risen so dramatically this year before trying to project how high they might reach. First, crude oil prices are considerably higher than the $50 per barrel price seen in mid-January, as cold weather finally arrived in the United States, boosting heating fuels demand. Crude oil prices have also been supported by OPEC production cuts, which have begun to impact consuming countries. Second, the gasoline market has tightened, with demand running high relative to seasonal norms, at a time when refiners have focused on the production of distillate fuels used for heating. Third, refinery maintenance and some unplanned refinery outages have also reduced gasoline production in recent weeks. Finally, gasoline imports have also dropped, falling below 1 million barrels per day the last six weeks after averaging 1.15 million barrels per day in 2006." EIA,, "This Week in Petroleum," March 14, 2007.

  "Gasoline prices saw another significant increase for the week of April 2, 2007, jumping 9.7 cents to 270.7 cents per gallon. This is the ninth consecutive week of increases; prices are now 11.9 cents per gallon higher than at this time last year. All regions reported higher prices. West Coast prices were up 8.0 cents to 309.6 cents per gallon, with the average price for regular grade in California up 7.6 cents to 322.8 cents per gallon, 48.5 cents per gallon above last year's price." EIA, "This Week in Petroleum," April 2, 2007.

- **Lumber and plywood** prices are still declining due to the small number of housing starts. Lumber prices will continue to decrease as long as the supply of these products greatly exceeds demand.

  "Last year, the single-family housing market fell 12% in dollar volume, according to McGraw-Hill Construction (ENR 02/05/07 p. 7.). That drop in demand is dragging down lumber prices. In February, ENR's 20-city average price for the most commonly used species of 2 X 4 lumber fell 5% from the previous month. This follows more than a year of price declines, which leaves ENR's price 16% below February 2005's level. Prices for plywood fell earlier during the housing cycle and are now 4% below a year ago." ENR, "Construction Economics," February 19, 2007.

"The best prospects for further price declines are for gypsum and wood products. Both of these categories are used heavily by home builders, who are continuing to reduce starts. In addition, manufacturers of both wallboard (gypsum) and oriented-strand board (wood) have been adding more capacity than the market can currently absorb, adding to downward pressure on prices." AGC, "Construction Inflation Alert," March 2007.

- **Steel** prices began declining in the fourth quarter of 2006. The outlook for steel prices in 2007 has been mixed. Companies producing structural steel and rebar have recently increased prices per ton.

  "Rebar prices are due for a modest upward swing soon, say sources at the World of Concrete trade show at the Las Vegas Convention Center. They say that rebar prices in the U.S. are poised for another increase in perhaps three weeks—after just boosting prices by $15/short ton, effective February 1." ENR, "Finance and Labor," 1/25/2007.

  "Several indicators suggest higher costs for construction materials ahead. Today, Nucor-Yamato Steel announced it would increase the net transaction price on all structural steel by $50 per ton, effective April 1, bringing the total increase since January 1 to $100 or 15%, from $660 to $760 per ton. Earlier in the week, mills producing reinforcing steel announced a $55-per-ton increase. The main driver has been soaring scrap prices; the mills cited a $70 jump this month in American Metal Market's published index for shredded auto scrap." AGC, "Data DIGest," 3/12/2007.

- **Highway Materials & Construction** prices will likely keep rising. In recent years, highway and street construction material inflation has outpaced inflation for other goods. During 2007 prices for materials associated with highway construction will remain elevated, with further escalations possible.

  "From early 2004 to mid-2006, the construction industry was plagued by runaway materials cost increases. Many of these price increases have slowed or even reversed course modestly in recent months. Unfortunately, it seems likely that the current calm is only a lull between storms and not a return to the inflation-free period of 2001-2003. By the end of 2007, materials costs could be rising again at a 6-to-8 percent rate, with wages rising at a 5 percent rate." AGC, "Construction Inflation Alert," March 2007.

  "The largest price jumps were for highway and street construction, for which the PPI is weighted more than 50 percent toward indexes for the industries producing diesel fuel, asphalt, concrete and steel. Each of these materials experienced double-digit price increases on an annual basis in 2005 and early 2006." AGC, "Construction Inflation Alert," March 2007.

"The greater volatility that can be expected for petroleum, concrete, and metals products implies that highway and other heavy construction are more likely to experience large price jumps again than are building construction segments." AGC, "Construction Inflation Alert," March 2007.

The plunging housing market should lower demand both for materials and labor, right? Shouldn't a less constrained supply be reflected in prices for commercial construction? A lack of substantial overlap between residential and commercial construction, however, means prices will climb unabated for many building materials. The same is true of labor; few homebuilding skills are transferable to the construction site of an office building, hospital or mall. "You can't take a framing carpenter and put him in a tower crane," Simonson says." National Real Estate Investor, "Construction Prices Headed Up in 2007," January 25, 2007.

- **Labor** prices are expected to increase double the recent wage trend due to a tight labor market. Contracts set to expire in May could put pressure on projects in Western Washington. Strong demand for skilled labor across Washington State could raise wages further.

  "Nonresidential wages and salaries are likely to rise at roughly a 5 percent rate in 2007, up from 4.5 percent in 2006 and 4 percent or less in 2005 and earlier years. A 5 percent rate of wage increases seems likely in future years as long as demand for nonresidential construction remains strong." AGC, "Construction Inflation Alert," March 2007.

  "A construction boom is driving the demand for workers. During last summer's building season, 44 percent of employers across the state said they were having trouble finding qualified workers, the state's Workforce Board said." Puget Sound Business Journal, "Wages lift project costs," January 26, 2007.